

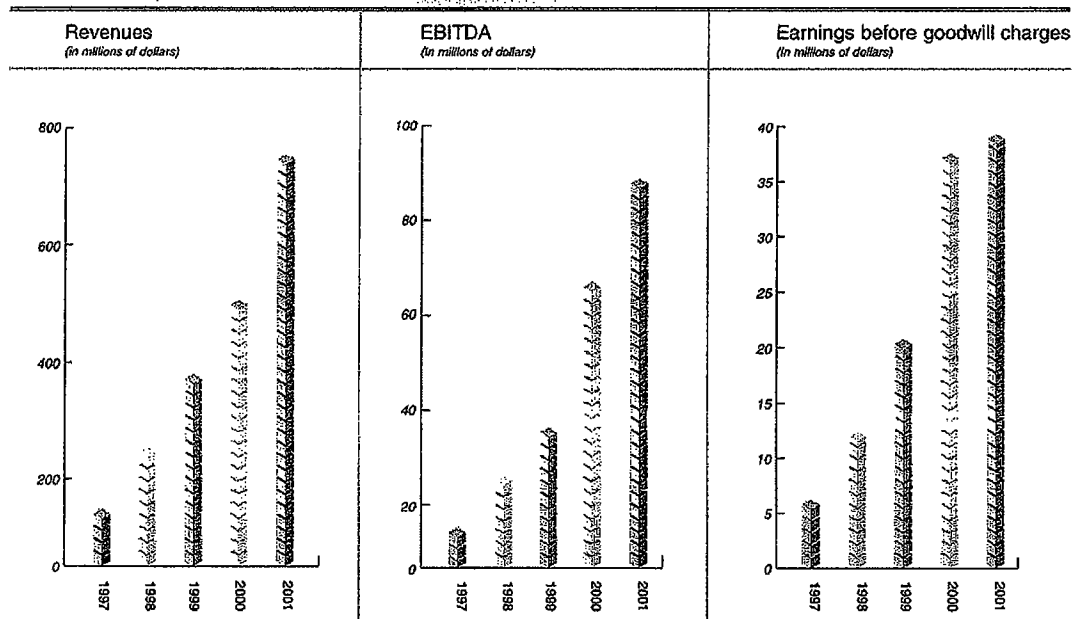
EXHIBIT D



2001 ANNUAL REPORT

FINANCIAL HIGHLIGHTS

YEARS ENDED DECEMBER 31	2001	2000	1999	1998	1997
OPERATIONS (THOUSANDS IN CDN\$)					
Revenues	\$ 761,654	\$ 493,662	\$ 378,006	\$ 252,574	\$ 122,703
Gross profit	216,189	174,902	125,613	83,598	37,645
EBITDA ⁽¹⁾	84,628	67,297	37,121	24,881	12,133
Earnings from continuing operations before goodwill charges	39,335	37,647	20,082	12,992	5,994
Earnings from continuing operations	29,030	30,909	15,513	9,534	4,832
PER SHARE AMOUNTS					
Diluted earnings from continuing operations before goodwill charges					
GAAP	\$ 0.48	\$ 0.50	\$ 0.29	\$ 0.24	\$ 0.17
Pro Forma ⁽²⁾	0.32	n/a	n/a	n/a	n/a
Diluted earnings from continuing operations					
GAAP	\$ 0.34	\$ 0.41	\$ 0.23	\$ 0.18	\$ 0.14
Pro Forma ⁽²⁾	0.20	n/a	n/a	n/a	n/a



The above financial information reflects the results from the continuing operations of Mosaic Group Inc. and excludes the results of all the Company's Continental European Operations.

(1) Earnings from continuing operations before interest, minority interest, income taxes, depreciation and amortization.

(2) Pro Forma diluted earnings per share reflects the impact of the Paradigm Earnout if it had occurred on January 1, 2001. Refer to note 9 of the December 31, 2001 consolidated financial statements for assumptions underlying the determination of Pro Forma earnings per share calculations.

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Letter to Shareholders

The theme of this annual report – and the theme at Mosaic – is leadership. As any student of history can tell you, talented leadership can make all the difference in the world. Success or failure. Winning or losing. Profits or losses. It is leadership first, and then of course execution, that makes the difference.

At Mosaic, we are demonstrating leadership, and we intend to make a difference. We will make a difference for you, our shareholders. We will make a difference for our Associates. And we will make a difference for our Brand Partners (our clients).

From my perspective, leadership means the ability to seize on four essential elements – opportunities, conviction, a plan and courage. I'd like to address each of these in turn.

Opportunities

Everywhere we look, opportunities abound. We will be disciplined in our focus, concentrating on the ones that can produce the best long-term returns. Some of the many forces working in Mosaic's favour are immediately obvious. Yet beyond those, we have 20/20 vision for opportunities that can only be seen through industry-coloured glasses – glasses we have worn for nearly 20 years.

To us, it is obvious that the major brands are shifting their spending out of feel-good, hard-to-measure advertising, to our core competency – measured marketing. Herein lies opportunity number one – to become the leading company in the world that delivers measured marketing solutions to large, global brands. Mosaic's whole operating methodology is about accountability, and accountability is exactly what large, global brands are demanding more for the dollars they spend and invest in marketing and distribution partners.

We are already the largest independent marketing solutions company in the world. To date that has essentially been a well-kept secret – but only for now. It won't be a secret for long. We have the vision, the plan, the management team and the talented Associates to turn Mosaic into the dominant and best known player – the leader – in this fast growing, emerging sector of measured marketing.

This is only one of many opportunities representing billions of dollars of potential revenue that Mosaic can tap into.

Another opportunity is the potential for taking the Mosaic platform in innovative directions, and creating new and sustainable revenue and earnings streams. Expect to see Mosaic lead in establishing creative new contracts and businesses with current and future Brand Partners. Expect to see Mosaic holistically integrate the entire transaction process by sourcing our own proprietary services, and selling those services to our own databases as well as to the databases of others. From product design, lead generation and customer acquisition, through to sales, fulfillment and billing, Mosaic will own its own end-to-end product solutions with higher margins, while minimizing risks by working with venture partners.

Expect to see Mosaic further establish itself as the leader in the burgeoning world of digital, data and direct marketing. And expect to see Mosaic emerge as the leader in driving large numbers of profitable consumer transactions – for our Brand Partners, for our joint venture partners, and for ourselves.

As I said, opportunities abound, and we have the leadership to seize them.

Conviction

Leadership also means having conviction in a vision – conviction that does not waiver through great times or through challenging times. During great times, leaders show their conviction through humility. During tough times, leaders show their conviction by staying the course, executing day-to-day, believing in the vision and bringing others onside to believe in the vision as well.

We have conviction that we are building a company that will stand the test of time as a great investment, a great place to work, and a business that delivers great results. Not everyone will be able to immediately understand every move we make, every deal we sign, or every company we buy. That said, we will not compromise the future for quick and easy decisions that do not fit into our long-term plan – even if those decisions are not immediately obvious to observers. We will do the right thing to meet the long-term interests of you, our shareholders, and our other constituents as well.

Sometimes maintaining conviction is not easy, because investors want results now. My job as the new CEO is to chart a course that ensures a great investment over time. I see a future where Mosaic is a transaction-driven company – and where we produce these transactions morning, noon and night, ensuring consistent growth of your investment.

We have the skill set, the technology and the know-how to accomplish this goal. Now it's a matter of making it happen. Our conviction is strong and our vision is clear.

A Plan

Leaders inspire because of the belief in his or her own vision and because people believe in the leader's plan to turn that vision into reality. We have a plan at Mosaic. We have shared it with our people. We have shared it with you. It is far reaching yet achievable.

Simply put, our plan is to become the world's most profitable transaction-driven organization...an organization that sells products and services on behalf of brands, in joint ventures with brands, on behalf of ourselves, and in other formats that will emerge over time...an organization that sells products and services using technology to drive efficiency, through traditional and non traditional channels to market. We will do so in ways people have seen before, and in new ways we are inventing every day at Mosaic.

Our plan also includes:

- treating our people with the utmost respect, rewarding them for effort, and greatly rewarding them for results;
- buying companies and capabilities that further our long-term cause, particularly in the areas of data, digital and direct;
- being transparent about our financial performance with the investment community;
- earning your trust every day through our consistency, our honesty and our results; and,
- becoming a long-term and dominant player on the world stage in selling products and services, and in creating transactions.

In addition, our plan includes change. As we grow your company over time, we will change our plan to reflect what we need to do in the short-term to build for the long-term.

Courage

Leaders must be willing to stand strong in the face of constant skepticism and second-guessing and be willing to make the hard calls. With opinions coming their way every day, from every angle, leaders need to have the courage to say, "this is where we are going, and this is how we are getting there". They do not change course because it is convenient or relieves the pressure of how the markets will react.

I would like to think the new Mosaic has already demonstrated courage. Inside our first quarter of running your company, we have:

- assessed the business from top to bottom, and then planned and initiated a company-wide restructuring, which should save the company approximately \$10 million on an annualized basis;
- initiated a debt restructuring and reduction plan by raising gross proceeds of \$52.44 million in new equity;
- reorganized the company into four manageable, understandable business divisions, and in an effort to help you understand them even further, we have included overviews of each in this annual report;
- initiated a system-wide new business development organization that will begin to pay dividends in the second half of 2002 and into the future; and,
- appointed a world-class, and in my opinion, the industry's best management team to run our business divisions.

Initiating each of these moves took courage. It always takes courage to be bold, and it takes courage to change. This annual report in its simplified look and production is an example of a bold step. Although we are a marketing services company with strong creative capabilities, we chose to go with a low cost alternative for our annual report to show our commitment to cost side management. By the time you read this annual report, we will have done much more. You can count on our courage to continue.

Leaders also inspire, and I hope these words have inspired you. I can tell you that our company is a team – highly motivated, inspired, and proud to go the extra mile to make our vision happen.

This is the new Mosaic. You can even see the change. Just look at our new logo on the cover of this report. Bold. Strong. Focused on solutions and results. The logo represents a new Mosaic. If you look closely, you can see that the individual pieces of the Mosaic are much more progressive in their design. This logo represents a transformation of one Mosaic to another; the Mosaic of today. We will prove beyond a shadow of a doubt that we are leaders, as people and as a company. As such, we are worthy of your investment and support.

Thank you for your continued interest in and support of Mosaic.



Marc Byron
Vice Chairman and
Chief Executive Officer
Mosaic Group Inc.

Mosaic Performance Solutions

Flawless execution at every point in the customer acquisition process.

Mosaic is one of the largest acquirers of wireless, satellite and deregulated energy subscribers in the US. We are also one of the largest acquirers of credit card subscribers, as well as the fifth largest and fastest growing long distance reseller in Canada. These are impressive accomplishments, and all of them can be attributed to one division within Mosaic – Performance Solutions.

Mosaic Performance Solutions has changed the competitive landscape by offering our brands end-to-end solutions in driving the ultimate transaction for them, that being a new customer. While other traditional firms focus on providing different parts of the customer acquisition solution, only Mosaic offers the scale, scope, and sophisticated technology to flawlessly execute every component of the customer acquisition process. That includes:

- developing the strategy;
- optimizing the media mix;
- acquiring the necessary data (frequently by providing our own);
- identifying the customers;
- creating the offer;
- closing the sales;
- delivering the service or product; and,
- provisioning the customer to the Brand.

Only Mosaic has a full range of capabilities to deliver the turnkey transaction of a new customer that gives our Brand Partners a real and measurable return on their marketing investment. We are the only company in the world that can leverage our own proprietary technology and our own data to drive cost-managed and measured results for our Brand Partners' businesses and sales.

Many of the world's largest brands, particularly in service industries such as telecommunications, finance, and energy, attach a value to their existing customers. We operate by ensuring that brands compensate Mosaic only for each new customer provided to them – what we call pay for performance or commission-based distribution compensation.

With the most sophisticated data, digital and direct marketing platform fully proven and built out, Mosaic Performance Solutions will drive more and more transactions in more and more creative ways.

Mosaic Sales Solutions

Leveraging talent, technology and logistics

With more than 20,000 field representatives selling products or services on a dedicated basis at retail for our Brand Partners, Mosaic has become the leading Sales Solutions company in the world, driving transactions through millions of face-to-face, one-on-one contacts.

Some of the world's largest brands – companies such as Guinness United Distillers and Vintners and AT&T Wireless – hire Mosaic's outsourced sales force because we have the ability to manage large-scale people deployment better than anyone else and because we know how to make the transaction happen. We know how to close sales. Mosaic can leverage its talent, technology and excellence in execution to create solutions that are better, faster and less costly than what the brand can deliver on its own.

The market for driving transactions in one-on-one settings – especially at big box and specialty retailers – is growing dramatically as brands continue to focus on their core competencies, turning over specialized functions to experts like us. Mosaic produces proven results for this market by driving sales at the point of purchase. We use a unique combination of leading edge processes and technologies to create an entirely digital work environment, and we use "best in class" people to operate those processes and technologies effectively. We move market share.

Each year, our field representatives visit more than 3.5 million destinations around the world and interact with tens of millions of potential consumers. We connect directly with consumers in the retail environment; provide product demonstrations that bring the brand to life, and train key product influencers, such as retail sales personnel or bartenders.

Through our joint venture with Information Resources Inc. (IRI), Mosaic InfoForce's field representatives visit more than 20,000 retail stores per week, collecting approximately 40 million unique data elements every month. We send this data using Mosaic's proprietary technology platform to IRI for analysis and sale to their clients. With this level of one-to-one contact and data collection, Mosaic can gather more market intelligence than any other company in the world – and consistently provide solutions that change to meet the needs of the brand and the retail environment.

Microsoft, one of the most recognized brands in the world, realized four years ago that partnering with Mosaic on its retail sales and merchandising functions would save costs and produce better results. Mosaic successfully deploys and develops the field team necessary to build Microsoft displays, install point of purchase materials, and dispense product information to retail sales personnel and consumers. We are currently serving as Microsoft's in-store representatives at 3,600 stores across North America, launching many new products and augmenting the sales of existing titles.

As part of the North American Windows XP Pre-Launch, Mosaic recently installed "PC Ready" point of purchase materials nationwide to promote PC compatibility with Windows XP. Microsoft relied on the strong technical skills of the Mosaic field representatives to launch in the retail environment, with Windows XP Live! retail

personnel training events and hundreds of in-store demonstrations. In fact, Mosaic's field representatives developed such an outstanding relationship with the retail locations that the campaign resulted in 90% of the stores placing the product without even receiving prior approval from the locations.

Our field representatives use hand-held PCs to relay information on point of purchase and display completion, product sales, floor presence, competitive information and causal feedback back to Microsoft daily through an innovative digital platform we have built for Microsoft, called Quantum Intelligence. The diverse teams within Microsoft rely upon this information on a real-time basis for crucial business decisions.

Mosaic consistently delivers targeted one-on-one solutions to our clients – solutions that pay off in “best in class” results for our brands because simply, we are judged by the ultimate form of measurement, the transaction. We excel at getting our brands' products and services in front of consumers, making a lasting impression, and then closing the sale.

Mosaic Marketing and Technology Solutions

Implementing integrated solutions that drive market share

Mosaic's Marketing and Technology Solutions division has become a leader in integrated marketing and technology solutions for Brand Partners. We understand the strategies and tactics that drive consumers' behavior, and have the ability to assist Brand Partners develop and implement marketing and technology executions that drive "value" for both the Brand Partner and their consumers. Our work spans all channels, incorporates innovative promotional activity and we understand how to apply technology to enable solid execution and create real efficiencies.

In today's marketplace, Brand Partners and consumers are challenging the traditional rules of direct marketing. It's no longer enough to just develop better and more targeted offers to consumers. The company to emerge as the true leader will be the one which creates value for the Brand Partners and their consumers. This cuts across business-to-business and business-to-consumer. At Mosaic we create that value by delivering results that can be measured, and by delivering results that visibly improve the brand's bottom line. Our solutions create value through interacting with consumers across all channels of delivery and by bringing our brands to life.

When the National Football League (NFL) wanted to increase its presence on campuses across Canada, Mosaic developed a solution that brought the NFL experience to life. Mosaic's Marketing and Technology Solutions group, in concert with the NFL, and sponsored by Budweiser, created a university touch football league at 10 Canadian universities. The program was established in recognition of a core NFL value - the need to establish a balance between athletic and academic achievement.

A random draw selected four teams out of the 10 university league champions to advance to the National Championship at the SkyDome in Toronto. The four teams played over 2 days with the winning team taking a \$10,000 NFL/Budweiser scholarship back to their university.

Off the field, Mosaic brought the NFL experience to life with on-campus designated licensee headquarters at each of the 10 universities hosting kickoff events, post game socials and NFL Monday Night Football parties. To create another level of interaction with the targeted consumers, Mosaic's technology group developed 34 pages on the Budweiser.ca web site to host league details, schedules, photos and contests.

The focus for any solution offering is always the brand's business or customer challenge. We can then draw from a range of Mosaic capabilities and experiences to develop the appropriate solution. Those solutions come in the form of a stand alone marketing and technology program which draws on its key capabilities – strategy and innovation, integrated marketing, database marketing services, technology delivery, creative, and people solutions – or through an integrated approach utilizing the capabilities of the full Mosaic group. The Marketing and Technology Solutions division is strategically aligned with each of the Mosaic divisions to provide added enhancements and effectiveness to Brand Partner solutions.

The Marketing and Technology Solutions division's focus is be on building innovative, practical solutions that perform well in the marketplace – solutions that produce real results in real time.

Mosaic Solutions UK

Leading in innovative, cost-managed, end-to-end solutions

Mosaic Solutions UK is a unique extension of Mosaic's full range of capabilities, and has emerged as a leader in innovative, cost-managed, end-to-end solutions.

Mosaic's ability to develop and execute a complete sales solution is being successfully showcased in our joint venture between J Sainsbury plc, one of the largest grocery retailers in the UK, and BT Cellnet. As the managing partner of this joint venture, we successfully leverage customer contacts, the Sainsbury brand name, BT Cellnet's wireless network, and Mosaic's proprietary technology platform and data to build the fastest growing private label wireless platform in the UK today.

Sainsbury wanted to extend its brand by offering a new customer business – Sainsbury's Mobile – to its 15 million walk-through customers each week and to the population at large. Working with BT Cellnet, Mosaic designed a wireless offering that enhances and adds value to the Sainsbury customer experience. On every monthly bill, subscribers receive a rating and comparison of their rates with those of approximately 40 competing plans in the UK. We charge the subscribers the lowest of all the rates.

Mosaic is reaping the benefits of this innovative solution. We receive a monthly management fee to manage this joint venture, to acquire customers for Sainsbury's Mobile, and we receive a share of the monthly profits generated by the joint venture. In addition, each customer added increases the long-term value of the ongoing business. Mosaic receives royalties, dividends or bonuses for delivering to Sainsbury what currently amounts to approximately 3,000 newly activated post-paid wireless customers per week, and growing.

The Sainsbury's Mobile success, as well as the success of our other brands such as Coca Cola Great Britain and Microsoft, attest to Mosaic's success as innovators, strategists and program integrators. Mosaic Solutions UK provides brands with the strategic thinking and execution needed to address their business challenges. Expect great things from our UK business.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of our annual report provides Management's Discussion and Analysis of the financial condition and operating performance of Mosaic Group Inc. for the years ended December 31, 2001 and 2000. This review focuses on key measures used to monitor our overall financial performance and financial condition. The analysis should be read in conjunction with and is based on our audited consolidated financial statements. All amounts are in Canadian dollars, unless otherwise stated.

OVERVIEW

During fiscal 2001 and over the first three months of 2002, Mosaic continued to take the steps necessary to evolve its business into the world's largest independent marketing & sales solutions company. Following are some of the major steps taken:

- (a) Appointment of Marc Byron as the Chief Executive Officer of the Company effective January 1, 2002 and making other senior management changes. The focus of the change is to combine experienced operations personnel with proven business development track records.
- (b) The development and announcement in early 2002 of the Company's "Go Forward Plan" which focuses on building revenue and earnings growth through targeted sales and marketing efforts along with strong operations management.
- (c) The reduction of selling general & administrative ("SG&A") costs in 2001 through headcount and overhead reductions at a cost of \$4.2 million with annualized savings estimated at \$10.5 million. The Company is planning a further approximate 10% headcount reduction in the first quarter of 2002.
- (d) Signing of major contracts aggregating to over \$150 million in fiscal 2001 including DIRECTV, Microsoft, Sainsbury's and BT Cellnet.
- (e) Private placement of Canadian Originated Preferred Securities amounting to US\$57 million in June 2001 to begin the process of strengthening the balance sheet.
- (f) Finalizing the terms of the contingent consideration payable to Paradigm Direct (now renamed Mosaic Performance Solutions) to remove related uncertainties, and to allow its complete integration into Mosaic.
- (g) Retooling Mosaic's customer direct marketing acquisition business (Mosaic Performance Solutions) after the fallout of the events of September 11th in the United States, to bring its direct marketing response rates to historic levels.
- (h) Decision to migrate Mosaic's direct marketing customer acquisition work to WorldCom Wireless from AT&T Wireless beginning in fiscal 2002. Although the Company had a short term negative impact on profit in the fourth quarter of 2001, extending into the first quarter of 2002, management believes that the WorldCom relationship will ultimately be more profitable and carry lower risk for Mosaic.
- (i) In March 2002, Mosaic completed a public offering of 13.8 million common shares for total gross proceeds of \$52.4 million.
- (j) Completion of the previously announced exit from Mosaic's unprofitable Continental Europe operations.

GO FORWARD PLAN

In January 2002 the Company unveiled its "Go Forward Plan" to its major stakeholders. This plan will be the cornerstone of the Mosaic's growth strategy. The main components of this plan follow:

- (a) Reorganize Mosaic into four business divisions from 23 largely independent units with the objective to streamline the organization, encourage cross selling, reduce overheads and provide critical mass. The four business units include:
 - Mosaic Performance Solutions (North America)
 - Mosaic Sales Solutions (North America)
 - Mosaic Marketing & Technology Solutions (North America)
 - Mosaic UK Solutions (United Kingdom)
- (b) Devote significant resources to business development including the establishment of a new business development unit directly reporting to the CEO.
- (c) Realignment of employee compensation, performance measurement systems and career development to encourage exceptional financial performance including cross selling of integrated marketing solutions.
- (d) Re-branding of all business units to Mosaic to enhance external awareness of Mosaic's solutions offerings.
- (e) Completing an efficiency review of the entire organization with a view to improving EBITDA (earnings before interest, taxes, depreciation and amortization, minority interest and goodwill charges) margin performance metrics by no less than one full percentage point in 2002 compared to 2001. The areas of focus include:
 - Performing a profitability review of all Mosaic's brand partner relationships with a view to re-negotiating or alternatively eliminating contracts which do not provide adequate profit contribution
 - Identifying areas of excess resource capacity within the Company as well as opportunities to reduce costs and improve efficiencies by realignment and integration of operations. The Company expects to eliminate approximately 10% of its work force and consolidate a number of physical locations. The Company is currently estimating the costs related to this restructuring to be in the range of \$10 to \$14 million with savings estimated to be \$10 million on an annualized basis or approximately \$5 million in fiscal 2002.
- (f) Restructure and reduce debt levels to provide for more balanced borrowing from alternate sources, to provide for a longer average maturity and to reduce the absolute level of debt outstanding. A stronger balance sheet will help the Company achieve its growth objectives more rapidly.

Mosaic Expands Wireless Customer Acquisition Capability With Worldcom Wireless

In the first quarter of 2002 Mosaic formed a new non-exclusive wireless customer acquisition relationship with WorldCom Wireless, Inc. Coincident therewith, Mosaic discontinued its direct marketing customer contract with AT&T Wireless which previously was carried out through an exclusive relationship. In 2001, Mosaic acquired approximately 750,000 wireless customers in the United States, representing approximately 6% of the US wireless market for Mosaic's carrier Brand Partners.

Commencing on January 28, 2002 Mosaic began marketing WorldCom Wireless consumer wireless services across the United States on a non-exclusive basis. WorldCom Wireless' service capabilities currently reach over 90% of the United States territory.

The transition to a non-exclusive arrangement with WorldCom Wireless was done to:

- (i) provide flexibility in how Mosaic optimizes its wireless marketing expertise;
- (ii) increase the potential size of the market by leveraging WorldCom Wireless's larger wireless services footprint in the United States; and
- (iii) provide higher potential operating margins combined with a lower risk business model as provided by the terms of the agreement with WorldCom Wireless as:
 - the Company is not responsible for owning phone inventory or for phone fulfillment; and
 - has limited responsibility for customer churn in comparison with the AT&T Wireless contract arrangements.

Effective January 2002, the Company discontinued its direct marketing customer acquisition contract with AT&T Wireless as profitability levels on this contract fell below target levels. This work represented US\$90.6 million in revenues during 2001 and incurred a loss in the fourth quarter.

As a result of the wind-down of the AT&T Wireless direct marketing contract, Mosaic's pre-tax earnings were lower by approximately \$4.0 million in the fourth quarter of 2001. Further, in conjunction with the discontinuance of Mosaic's direct marketing activities with AT&T Wireless, the parties are in the process of negotiating the financial arrangements and other terms of such discontinuance. In the event that a satisfactory resolution is not achieved either party may elect to settle such matter through binding arbitration. In February 2002, the Company notified AT&T Wireless of the Company's intention to arbitrate should a mutually agreeable resolution not be reached. The Company does not anticipate any material negative impact on its financial position resulting from such negotiation or arbitration.

Looking forward, the Company expects that the WorldCom Wireless program will build during the first quarter of 2002 as the Company ramps up its services and then will provide relatively consistent revenues and margin thereafter as the program matures. Commencing in the second quarter, it is management's estimate that the WorldCom program will generate approximately US\$10 to US\$12 million less per quarter in revenues than the AT&T Wireless program generated in the prior year, however, the new program is expected to generate approximately the same level or better of profit margin per customer acquired.

Paradigm Direct Earnout

In the fourth quarter of 2001, the Company entered into an agreement with the vendors of Paradigm Direct LLC, now renamed Mosaic Performance Solutions, amending certain terms related to the contingent consideration ("earnout") payable as per the original merger agreement. Mosaic management entered into the early termination of the earnout on November 6, 2001, as it believed this early termination had significant benefits for Mosaic's shareholders as: (i) it provided finality and certainty with respect to the amount and timing of the Mosaic Performance Solutions Earnout to the former equity holders of Paradigm, including the maximum number of additional Mosaic common shares issuable; (ii) it eliminated the risk of possibly higher shareholder dilution that may otherwise have occurred under the terms of the original merger agreement; and (iii) it allows the Company to retain financial flexibility in terms of the ultimate level of debt incurred. Shareholders approved the terms of the amending agreement on January 7, 2002. The additional consideration payable has been included in goodwill.

The following table summarizes the amounts payable under the amended terms:

20,540,000 shares issued in January 2002	\$ 57,512
Payable in cash or common shares at Mosaic's option, US\$26,000,000 or a maximum of 12,480,000 shares	41,340
Total obligations included in share capital	98,852
Cash paid in January 2002	42,135
Additional transaction costs	2,012
Total additional consideration	\$ 142,999

RESULTS OF OPERATIONS AND FINANCIAL CONDITION

SUMMARY FINANCIAL INFORMATION

(in thousands of dollars, except percentages)

	2001	2000	Change	Change (%)
Revenue	\$ 761,654	\$ 493,662	\$ 267,992	54%
Gross Profit	\$ 216,189	\$ 174,902	\$ 41,287	24%
% of Revenue	28.4%	35.4%	(7.0%)	
SG&A	\$ 131,561	\$ 107,605	\$ 23,956	22%
% of Revenue	17.3%	21.8%	(4.5%)	
EBITDA	\$ 84,628	\$ 67,297	\$ 17,331	26%
% of Revenue	11.1%	13.6%	(2.5%)	

Highlights of 2001 operating performance follow:

- Revenues increased by 54% to \$761.7 million compared to \$493.7 million in 2000. Pro forma revenue growth (which includes the fourth quarter 2000 acquisition of Mosaic Performance Solutions) grew by 12% in local currency terms with significant growth in the United States offset by a reduction in the United Kingdom.
- Earnings from continuing operations before interest, taxes, minority interest, depreciation, and amortization ("EBITDA") increased 26% to \$84.6 million in 2001, from \$67.3 million in 2000.
- Earnings from continuing operations before goodwill charges ("cash earnings") were \$39.3 million in 2001 compared to \$37.6 million in 2000.
- Earnings were, however, negatively impacted by the following factors which accumulated to approximately \$0.06 to \$0.07 per diluted share over fiscal 2001:
 - As a result of the wind-down of the direct marketing customer acquisition contract with AT&T Wireless and the move to WorldCom Wireless, the pre-tax earnings in the fourth quarter of fiscal 2001 were lower by approximately \$4.0 million or \$0.04 per share.
 - The financial impact of the terrible events of September 11th was to reduce third quarter revenues by approximately \$15 million to \$17 million with a corresponding reduction in operating earnings estimated at \$2.3 to \$2.5 million or \$0.02 to \$0.03 per share.

The following table summarizes the reported diluted and pro forma earnings per share ("EPS") from continuing operations.

	For the years ended	
	2001	2000
EPS	\$0.34	\$0.41
Cash EPS	\$0.48	\$0.50
Pro Forma EPS ¹	\$0.20	n/a
Pro Forma cash EPS ¹	\$0.32	n/a

¹ Pro Forma EPS reflects the impact of Mosaic Performance Solutions earnout as if it had occurred on January 1, 2001. This determination of per share earnings is based on the following assumptions:

- (i) the transaction was effective on January 1, 2001;
- (ii) 33,020,000 common shares were issued on that date including the first payment of 20,540,000 shares and a further US\$26 million settled in shares (12.48 million);
- (iii) the consideration of US\$26.5 million was paid in cash, and financed through borrowings at an interest rate of 6% with a tax shield of 25% on the interest expense; and
- (iv) the US dollar to Canadian dollar exchange rate during the period was 1.59 for purposes of determining the Canadian dollar interest cost on an after tax basis.

Revenues and Gross Profit

2001 Results:

The following table summarizes the comparative fourth quarter and full year revenues by major country within which the Company operates.

(in millions of dollars except percentages)

	Three months ended December 31			Fiscal Year		
	2001	2000	Change	2001	2000	Change
Canada	\$ 26.3	\$ 15.7	68%	\$ 120.8	\$ 116.7	4%
United States	99.6	86.9	15%	464.5	177.5	162%
United Kingdom	41.5	43.2	(4%)	176.4	199.5	(12%)
TOTAL	\$ 167.4	\$ 145.8	15%	\$ 761.7	\$ 493.7	54%

Revenues for fiscal 2001 were impacted by the following major factors:

- (a) Full year inclusion in fiscal 2001 of revenues from Mosaic Performance Solutions, which was acquired in November 2000. This is reflected in year over year pro forma revenues growth of 33% in the U.S. compared to the growth in reported revenues of 162%. Pro forma consolidated Mosaic revenue growth, including the impact of Mosaic Performance Solutions, in fiscal 2001 was 13% (before currency impact) compared to the increase in reported revenues of 54%;
- (b) The development of significant new contracts, especially in the US, with revenues of over \$100 million in fiscal 2001. These contracts include those with DIRECTV, Microsoft, New Power, Guinness United Distillers and Vintners (GUDV), Brown & Williamson, Sainsbury's and BT Cellnet. Revenues from Mosaic's top 25 brand partners, excluding AT&T Wireless, grew by approximately 45% year over year mainly through new contracts implemented in fiscal 2001;
- (c) Strengthening of the US dollar and the British pound in relation to the Canadian dollar resulting in a positive impact of 1% on reported revenues for fiscal 2001 in relation to the prior year;
- (d) The fourth quarter of fiscal 2001 was impacted by reduced marketing under the AT&T Wireless direct marketing customer acquisition contract as the contract was proving unprofitable.
- (e) Insufficient business development activities negatively impacted 2001 revenues, particularly in the United Kingdom, where management turnover was high at the beginning of the year. Mosaic's Go Forward Plan devotes significant resources to business development with a new business development unit setup reporting directly to the CEO;
- (f) Direct fallout from the events of September 11th, reduced third quarter revenues by approximately \$15 to \$17 million; and
- (g) Cutbacks in discretionary client spending especially in the Mosaic's relevance marketing business and certain of Mosaic's clients in the information technology sector. Over all about 15% to 20% of Mosaic's revenue base is exposed to the more discretionary marketing budgets of Mosaic's brand partners, which have a tendency to decline during periods of economic downturn. The remaining 80% to 85% of Mosaic's revenue base is derived from typically less discretionary sales and distribution budgets of the Company's brand partners.

Mosaic has a large customer base spread over a number of industry sectors. The top 25 customers accounted for approximately 75% of 2001 revenues. Over 70 customers each generated revenues in excess of \$1 million during the year. AT&T Wireless represented approximately 27% of the total revenues in fiscal 2001. As discussed in the previous section, Mosaic has discontinued its direct marketing customer acquisition contract with AT&T Wireless as profitability levels on this contract fell below target levels. This work represented US\$90.6 million in revenues during 2001 or about 18% of the total revenues but generated a significantly lower percentage of total fiscal 2001 earnings. The WorldCom Wireless contract will generate lower revenues compared to the AT&T Wireless contract but is expected to generate the same or higher absolute margins per customer acquired. However, as previously discussed, the risks for Mosaic, associated with the WorldCom Wireless business model will be significantly lower than that with the AT&T Wireless business.

By client industry sector, Mosaic's 2001 and 2000 revenues breakdown as follows:

Industry	2001	2000
Consumer goods	36%	49%
Telecommunications	32%	16%
Financial services	13%	17%
IT and convergent technology	7%	13%
Automotive and others	12%	5%
	100%	100%

The significant increase in the revenues from the telecommunications industry was mainly due to the revenues from AT&T Wireless during the year. Telecommunications revenues are expected to decline approximately US\$10 to US\$12 million per quarter in the United States in 2002 in relation to 2001 resulting from the switch from performing customer acquisition work for AT&T Wireless to WorldCom Wireless. In the United Kingdom, there is likely to be an increase in revenues in 2002 from the telecommunication industry as a result of the commencement of the customer acquisition relationship with BT Cellnet and the ongoing Mobile program with Sainsbury's. The other trend during fiscal 2001 has been a significant reduction in the number of IT and convergent technology clients as this sector cuts spending in a soft business environment for technology products.

Gross Profit increased to \$216.2 million in fiscal 2001 from \$174.9 million in fiscal 2000. Gross profit as a percentage of revenues was 28.4% in 2001, a decrease from 35.4% in 2000. This decline is partly due to the full year impact of the inclusion of Mosaic Performance Solutions whose pay for performance model typically operates at lower gross margin levels than Mosaic's traditional businesses. In addition, the Company experienced lower earnings in the fourth quarter arising from the decision to discontinue the AT&T Wireless direct marketing contract. Also adversely affecting profit margins was the increased budget pressure from certain clients in light of the weakening economic environment in 2001.

Outlook for 2002:

The Company began fiscal 2002 with a high level of revenue visibility. This visibility is 80% as measured by Mosaic's projected fiscal 2002 revenues, which are either contracted or highly probable (defined as contract which is expected to be renewed during 2002, where Mosaic has a distribution arrangement or where Mosaic is an agency on record and a budget has been identified by the brand partners).

The following table summarizes managements' revenue estimates for fiscal 2002:

Projected 2002 revenues (millions of dollars)

	2002 Estimates	2001 Actual
Mosaic Performance Solutions (North America)	\$310 - 315	\$324
Mosaic Sales Solutions (North America)	230 - 235	206
Mosaic Marketing & Technology Solutions (North America)	55 - 60	56
Mosaic UK Solutions (United Kingdom)	135 - 140	176
Mosaic Consolidated	\$730 - 750	\$762

Management estimates that fiscal 2002 revenues will be in the range of \$730 to \$750 million compared to \$762 million in fiscal 2001. The reduction in estimated revenues for fiscal 2002 compared to 2001 is primarily due to:

- (a) Mosaic's decision to discontinue the AT&T Wireless direct marketing customer acquisition contract and move to WorldCom Wireless. However, the new program is expected to generate approximately the same level or better of profit margin per customer acquired; and
- (b) The planned discontinuance of several unprofitable contracts, particularly in the United Kingdom; partly offset by
- (c) Significant growth opportunities in the sales solutions business in North America.

As part of the Go Forward Plan for 2002, Mosaic's management has committed significant resources to business development activity with the appointment of senior executives who will focus on developing new and existing client contracts with higher margins on a per contract basis. The 2002 plan has specifically allocated \$3.7 million towards business development to be used for the funding of:

- (a) dedicated senior business development people at units;
- (b) lead generators and "rainmakers" across divisions;
- (c) external lead generation fees;
- (d) external communication and re-branding initiatives; and
- (e) internal incentive related compensation.

The Company expects these business development initiatives to generate significant revenues towards the latter half of fiscal 2002 that will replace revenues lost from unprofitable contracts discontinued by Mosaic.

Looking forward the company expects its gross margin percentage to marginally improve in 2002 as a result of:

- (a) The replacement of the AT&T Wireless direct marketing contract with the WorldCom Wireless customer acquisition program;
- (b) Cost savings from previously completed actions including employee terminations and discontinuance of unprofitable brand partner contracts. This includes the discontinuance of two unprofitable direct selling contracts in the United Kingdom, which resulted in losses of \$1.2 million during fiscal 2001; and
- (c) The restructuring of the Sainsbury's Mobile Program in the U.K. which became profitable in the fourth quarter of 2001. To August 31, 2001, this program incurred operating losses aggregating approximately \$1.5 million as initial customer acquisition levels were lower than planned;

Currently, the Company is undertaking a review of gross margins across its entire client base to eliminate contracts which do not meet target profitability levels. This action is being taken in conjunction with Mosaic's restructuring plans, which will be finalized in the first half of 2002.

Selling, General and Administrative ("SG&A") Expenses**2001 Results:**

The components of SG&A expense, stated as a percentage of revenues, were as follows:

SG&A Expense as a % of Revenues	2001	2000
Salaries, benefits, and bonuses	10.9%	14.1%
Equipment leases	0.3%	0.7%
Occupancy	1.3%	1.6%
Other	4.8%	5.4%
Total SG&A	17.3%	21.8%

SG&A expenses in fiscal 2001 were \$131.6 million, an increase of 22% over fiscal 2000. The increase was mainly due to the full year impact of the inclusion of Mosaic Performance Solutions, which was acquired in the fourth quarter of 2000. Although SG&A expenses have increased on a year over year basis, these expenses as a percentage of revenues decreased to 17.3% during fiscal 2001, from 21.8% in the prior year. The percentage decline is largely due to the positive impact of Mosaic Performance Solutions which typically has SG&A levels running at less than 11% of revenues partially offset by higher SG&A costs resulting from a build out of senior Mosaic management resources, excess head count at certain operating locations and severance costs.

With the significant revenue decline in the United Kingdom and softness in certain other businesses, management focused in 2001 on personnel reductions to reduce excess capacity, control of discretionary spending such as travel, combining back offices in the areas of finance, human resources, IT and payroll and maximizing supplier leverage and benefits enjoyed throughout the group. During the year, 178 employees were eliminated as a result of redundancies with a total cost of \$4.2 million.

As announced in January of 2002, management is committed to further reductions in head count in selected operating divisions aggregating approximately 10% of total full time staff as well as closure of four to six business locations. The Company is currently estimating the costs related to this restructuring to be in the range of \$10 to \$14 million, with this charge to be recorded in the first quarter of 2002. Annualized savings from such initiatives are estimated at \$10 million with an estimated \$5 million saving in fiscal 2002.

Outlook for 2002:

Looking forward, management anticipates that SG&A in 2002 will approximate 16% to 17% of revenues.

Earnings From Continuing Operations Before Interest, Minority Interest, Taxes, Depreciation and Amortization ("EBITDA")**2001 Results:**

EBITDA for 2001 was \$84.6 million, up 26% from \$67.3 million in 2000. EBITDA as a percentage of revenues was 11.1%, compared to 13.6% in 2000. The decline in EBITDA margin percent can be attributed to the following significant items:

- (a) The fourth quarter reduction in earnings of approximately \$4.0 million from the wind-down of the direct marketing customer acquisition contract with AT&T;

- (b) The impact of September 11 on the Company's Performance Solutions business, which resulted in a negative earnings impact of \$2.3 to \$2.5 million during the third quarter of fiscal 2001;
- (c) Losses on unprofitable contracts in the United Kingdom of \$1.2 million. These contracts have subsequently been terminated; and
- (d) The loss incurred to August 31, 2001 of \$1.5 million during the start up phase of the Sainsbury's Mobile program.

Outlook for 2002:

Excluding the impact of any restructuring costs and related savings, management estimates fiscal 2002 EBITDA to be in the range of \$89 million to \$91 million, which would be approximately 11.5% to 12% of revenues compared to 11% in 2001. The improvement in the operating metrics would be largely as a result of a change in the revenue mix arising from the discontinuance of unprofitable brand partner contracts, the avoidance of one-time losses incurred in 2001 and the result of previously completed cost reduction measures.

Selected Financial Information

(in thousands of dollars, except percentages and per share amounts)

	2001 (\$)	2000 (\$)	Change (\$)	Change (%)
EBITDA	84,628	67,297	17,331	26%
Depreciation and other amortization	17,858	9,422	8,436	90%
Interest	16,811	8,994	7,817	87%
Minority Interest	(629)	(393)	(236)	60%
Earnings from continuing operations				
before income taxes and goodwill charges	50,588	49,274	1,314	3%
Income taxes	11,253	11,627	(374)	(3%)
Effective tax rate	22%	24%	(2%)	
Earnings from continuing operations				
before goodwill charges (cash earnings)	39,335	37,647	1,688	4%
Goodwill charges net of income taxes	10,305	6,738	3,567	53%
Earnings from continuing operations	29,030	30,909	(1,879)	(6%)
Diluted cash earnings per share from continuing operations	\$ 0.48	\$ 0.50	(0.02)	(4%)
Diluted earnings per share from continuing operations	\$ 0.34	\$ 0.41	(0.07)	(17%)
Weighted average number of diluted shares outstanding	76,990	75,438	1,552	2%

Depreciation and Other Amortization

2001 Results:

Depreciation and other amortization expenses were \$17.9 million in 2001 representing 2.3% of revenues, compared to \$9.4 million or 1.9% of revenues in 2000. Two major factors resulting in this increase are:

- (a) The full year impact of the inclusion of Mosaic Performance Solutions which was acquired in the fourth quarter of 2000; and

- (b) Significant investment during the second half of 2001 in equipment used in Mosaic's U.S. data collection joint venture with Information Resources, Inc.

Outlook for 2002:

In 2002 depreciation and amortization expenses are expected to be in the range of \$20 million to \$22 million. The increase will be largely as a result of the full year impact of the depreciation of capital assets acquired during 2001 and planned 2002 capital expenditures in the range of \$20 to \$22 million.

Interest Costs

2001 Results:

Interest expense increased to \$16.8 million in 2001 from \$9.0 million in the prior year. This increase in interest costs was due to the higher utilization of debt facilities, primarily to finance the acquisition of Mosaic Performance Solutions in 2000. The interest cost in the second half of fiscal 2001 was significantly lower than that in the first half of the year as a result of:

- (a) The private placement of equity instruments in June 2001 in the amount of US\$ 57 million, the proceeds of which were applied towards a reduction in senior bank debt as discussed further in the Liquidity and Capital Resources section; and
- (b) A lower interest rate environment in Canada and United States, the two primary markets in which the Company's debt is priced.

In December 2001, Mosaic reached an agreement with its banking syndicate to extend the existing credit facilities by one year to October 2004. The amended credit facility carries interest at bankers' acceptance rates or LIBOR plus 2.15% to 3.05% depending on Mosaic's funded debt to EBITDA ratio. As at December 31, 2001, Mosaic was eligible for the lowest credit spread under the facility.

Mosaic has floating-for-fixed interest rate swaps which have the effect of fixing the interest rate on US\$25 million of debt at 5.85% and \$50 million of Canadian dollar debt at 5.19%, plus the credit spread on both instruments.

Outlook for 2002:

Given the current level and mix of debt, the fiscal 2002 interest (excluding COPrS payments) is projected to be in the range of \$13.5 to \$15.5 million. This amount reflects the net impact of the following factors:

- (a) Lower interest expense as a result of the full year impact of the issue of equity instruments in June 2001;
- (b) Lower interest expense as a result of a share offering of 13.8 million common shares completed in March 2002.
- (c) Increase in the credit spread on the amended bank agreement; and
- (d) Continuing impact of a lower interest rate environment.

It is the Company's plan to lengthen the average life of its debt facilities. Typically, longer term instruments carry higher interest charges. As such, forecast interest expense could be significantly higher if the Company introduces longer term debt instruments into its capital structure during 2002.

Income Taxes

2001 Results:

Income taxes as a percentage of earnings before taxes and goodwill charges decreased from 23.6% in 2000 to 22.2% in 2001. The reduction in effective tax rate is mainly due to the use of tax planning strategies and changes in the mix of income from different tax jurisdictions. Management continues to actively monitor and manage the Company's tax expense.

Outlook for 2002:

Management's tax planning strategies are expected to keep the effective tax rate in 2002 in line with or marginally lower than the actual tax rate in fiscal 2001.

Cash Earnings from Continuing Operations, Diluted Cash Earnings Per Share From Continuing Operations, Goodwill Charges and Earnings from Continuing Operations

2001 Results:

Cash earnings, defined as earnings from continuing operations before goodwill charges increased by \$1.7 million, a 4% increase over 2000, to \$39.3 million in 2001. As a percentage of revenues, cash earnings were 5.2%, down from 7.6%, reflecting the impact of (i) previously articulated losses aggregating \$7.8 to \$8.0 million resulting from lower earnings on the AT&T program in the fourth quarter, the impact of September 11th on the Performance Solutions business, and the start-up losses on the Sainsbury's Mobile program; combined with (ii) increases in depreciation and amortization expense; and (iii) increased interest costs resulting from borrowing related to the Paradigm Direct (Mosaic Performance Solutions) acquisition.

Diluted cash earnings per share from continuing operations (Cash EPS) were \$0.48 in 2001, a 4% decline from \$0.50 in 2000. The decline is mainly due to the dilutive impact on per share earnings of the distributions on equity instruments, and the issue of common shares to finance acquisitions.

Diluted Pro Forma Cash EPS from continuing operations, reflecting the impact of the Mosaic Performance Solutions Earnout as if it had occurred on January 1, 2001, was \$0.32 for fiscal 2001.

Goodwill charges from continuing operations, net of income taxes, increased to \$10.3 million in 2001 from \$6.7 million in 2000. The increase was mainly related to goodwill arising from the acquisitions in 2000, most significant being Mosaic Performance Solutions in the fourth quarter of 2000.

Effective January 1, 2002, the Company has adopted the new accounting standards released by the Canadian Institute of Chartered Accountants as applied to business combinations and accounting for acquisition related goodwill. This will effectively eliminate the ongoing amortization of goodwill but will require the company to periodically carry out tests that are significantly more rigorous than the existing standards to determine whether there has been impairment in the carrying value of goodwill and in the financial statements. The impact of the non-amortization approach to accounting for goodwill for the Company in 2002 will be to increase diluted earnings from continuing operations. The Company has not yet determined the effect, if any, on its financial position and results of operations of the new goodwill impairment testing that will be done in connection with these new accounting standards.

With the implementation of the new accounting standards in January 2002, Mosaic will no longer report cash earnings or cash EPS, as the reported net earnings and EPS will essentially be the same as the previously reported cash earnings and cash EPS number.

Earnings from continuing operations were \$29.0 million in 2001 compared to \$30.9 million in 2000. **Diluted earnings per share from continuing operations (EPS)** were \$0.34 in 2001, a decrease from \$0.41 in 2000. This decline in per share earnings was mainly due to higher goodwill charges of \$0.05 on a per share basis and lower cash earnings per share as discussed before.

As discussed in notes 1(n) and 9(a) to the consolidated financial statements, the Company has retroactively adopted the new recommendations for determining earnings per share issued by the Canadian Institute of Chartered Accountants. The comparative per share earnings for 2000 have been restated to reflect retroactive adoption of the treasury stock method of calculating EPS.

Diluted Pro Forma EPS from continuing operations, reflecting the impact of the Mosaic Performance Solutions earnout as if it had occurred on January 1, 2001, was \$0.20 for fiscal 2001.

Outlook for 2002:

Management estimates that diluted earnings per share for fiscal 2002 will be in the range of \$0.30 to \$0.32. The following table summarizes the outlook for the three months ending March 31, 2002 and for fiscal 2002.

<u>(in millions of dollars)</u>	Fiscal 2002 Estimates	Three months ending March 31, 2002 Estimates
Revenue	\$730 to \$750	\$135 to \$145
EBITDA	\$89 to \$91	\$11 to \$13
Diluted EPS	\$0.30 to \$0.32	\$0.01 to \$0.02

The above estimates exclude both the cost and savings of management's previously announced restructuring but include the impact of the March 2002 share offering. The Company is currently estimating the costs related to this restructuring to be in the range of \$10 to \$14 million, with this charge to be recorded in the first quarter of 2002. Annualized savings from such initiatives are estimated at \$10 million with an estimated \$5 million saving in fiscal 2002. It is the Company's intention to provide an update of the restructuring costs and related savings, including changes in guidance, in the first quarter reporting to shareholders.

DISCONTINUED OPERATIONS

During the current year, the Company divested its operations in Continental Europe through either the sale or closure of all businesses involved. This resulted in a one-time net of tax charge in the first quarter of 2001 of \$8.3 million or \$0.11 per diluted share. Management does not anticipate any further charges related to the exit from Continental Europe.

LIQUIDITY AND CAPITAL RESOURCES

The company's cash flows, as reflected in the Consolidated Statement of Cash Flows, are summarized in the table below:

SUMMARIZED CONSOLIDATED CASH FLOWS

(in thousands of dollars)	2001	2000
Net cash provided by (used in):		
Continuing operations	\$ 59,169	\$ 48,562
Net change in non-cash operating working capital from continuing operations	(31,125)	15,237
Financing activities	6,289	155,204
Investing activities (continuing operations)	(38,570)	(205,603)
Discontinued operations	(6,806)	(7,434)
Effect of exchange rate changes on cash	260	(589)
Net change in cash position	\$ (10,783)	\$ 5,377

During the year ended December 31, 2001, the company's **operating activities** generated \$28.0 million in cash flows compared to \$63.8 million in 2000. The decrease in operating cash flow was mainly due to the increase in working capital of \$31.1 million in fiscal 2001 compared to a reduction of \$15.2 million in working capital during fiscal 2000. The increase in working capital was required mainly to support the growth in revenues as well as the change in business mix arising from the discontinuance of the AT&T Wireless direct marketing contract and the working capital requirements of certain new client contracts during the year.

The net cash generated from **financing activities** was minimal compared to 2000. In June 2001, Mosaic completed a private placement of US\$57 million of Canadian Originated Preferred Securities ("COPrS"). During the year the Company applied \$72.2 million towards a net reduction of debt, primarily under the Senior credit facility, by applying the proceeds from the placement of the COPrS. Distributions on those equity instruments amounted to \$4.6 million for the year. Repurchase of common shares, net of shares issued, used \$3.7 million of cash during the year.

Investing activities used \$38.6 million of cash during the year. Of this, \$14.2 million was used for acquisition costs and payments pursuant to contingent consideration agreements related to acquisitions from prior years. In addition, \$22.2 million was used to acquire property and equipment and \$2.2 million was invested in other long-term assets. Included in this category are investments of approximately \$18.0 million made during the year in technology related to the sales solutions, data collection and the customer acquisition businesses of the Company and brand partner reporting information systems.

In February 2001, management decided to divest operations in Continental Europe. The company completed the divestment in the first half of 2001 through the sale or closure of all the businesses involved. Cash used in fiscal 2001 in the closure and divestment of the discontinued operations was \$6.8 million.

INVESTMENTS

The company ended the year with total assets of \$820.8 million, an increase of 26.6% from 2000. The largest component of this increase was **goodwill**, with a recorded value of \$589.7 million and an increase net of amortization of \$158.9 million over last year.

The increase in goodwill arises from the following:

- (a) Finalization of the Mosaic Performance Solutions earnout which added \$143.0 million to goodwill;
- (b) Exchange of the investment in Intelcom for its minority interest in eForce adding \$9.2 million to goodwill;
- (c) Strengthening of the U.S. dollar and British pound in relation to the Canadian dollar resulting in an increase in the recorded amount of goodwill by \$20.2 million; less
- (d) Amortization charge during the year of \$13.5 million.

Management reviews the carrying value of goodwill on a regular basis to determine if impairment has occurred. This determination of each component of goodwill is made by comparing the carrying value of the goodwill to the undiscounted amounts of expected future cash flows. In addition, management monitors the traded market value of comparable marketing and sales services companies. Management is of the view that the carrying value of recorded goodwill has not been impaired, and in aggregate is recorded at less than fair market value.

As previously noted, effective January 1, 2002, the Company adopted the new accounting standards released by the Canadian Institute of Chartered Accountants as applied to business combinations and accounting for acquisition related goodwill and other intangible assets. The Company has not yet determined the effect, if any, on its financial position and results of operations of the new goodwill impairment testing that will be done in connection with these new accounting standards.

The reader is directed to notes 1(f) and 1(o) to the consolidated financial statements regarding the Company's accounting policies and the adoption of new accounting standards related to accounting for goodwill effective January 1, 2002.

Investments in **property and equipment** at the end of the 2001 were recorded at \$63.1 million, which is net of accumulated depreciation of \$36.7 million, up \$17.3 million over the net book value of \$45.8 million at December 31, 2000. The increase was mainly from investments in technology related to the sales solutions, data collection and the customer acquisition businesses of the Company. These investments enable Mosaic to offer enhanced value to its customers in terms of field force management and market intelligence at retail. Mosaic believes that its technology provide significant entry barriers for competition and provides a way to differentiate the Company's service offerings.

Mosaic's **working capital** as at December 31, 2001 excluding cash, indebtedness and accruals for acquisition liabilities was a net asset of \$4.9 million compared to a net liability of \$32.2 million as at December 31, 2000. Mosaic's working capital deficit declined year over year, with the most significant reason being the change in the mix of business at the end of the year with the discontinuance of the AT&T Wireless ("AT&T") direct marketing contract and the implementation of several new contracts in fiscal 2001.

Under the terms of the AT&T contract, Mosaic was required to refund AT&T for customers acquired by Mosaic which did not remain on the AT&T network for an agreed period of time ('churn chargeback'). In accordance with GAAP, Mosaic records the estimated churn chargeback as a reduction in revenues at the time revenue is first recognized. However, Mosaic did benefit from the fact that AT&T would, on a cash basis, prepay the entire commission in advance and would only recover the commission in respect of a churn chargeback when the customer subsequently left the AT&T network. With the significant reduction of marketing under this program in the fourth quarter, the Company lost the benefit of this prepayment with a resulting negative impact on the Company's working capital position.

CAPITAL RESOURCES

Mosaic's **long-term debt** at December 31, 2001 was \$169.3 million, drawn almost entirely from Mosaic's Senior credit facility. It includes \$6.6 million of liabilities related to capitalized leases. The Company's credit agreement was amended on November 30, 2001. The amended agreement provides a \$300 million committed revolving term facility with a reduction in the available principal amount to \$275 million by October 5, 2002, and to \$250 million by October 5, 2003. The term of the facility is three years, which can be extended for a further year on each anniversary of the facility, currently due October 2004. For additional details, the reader is directed to note 5 to the consolidated financial statements.

As at December 31, 2001, Mosaic had unused capacity under this credit facility of approximately \$123 million subject to draw limits arising from financial covenants under the facility. This is adequate to meet Mosaic's working capital requirements, ongoing capital expenditure and commitments for acquisition related payments.

It is the Company's plan in 2002 to:

- (a) Obtain additional sources of capital to reduce its reliance on its syndicated bank facility;
- (b) Lengthen the average life of its debt facilities through the use of longer term instruments; and
- (c) Reduce its overall debt levels (including COPrS) by year end.

Mosaic's **shareholders' equity** was \$419.0 million as at December 31, 2001, an increase of \$212.8 million, from \$206.2 million at December 31, 2000. This increase resulted from:

- (a) The issuance of US \$57 million (C\$85.3 million) in Canadian Originated Preferred Securities ("COPrS");
- (b) The recording of Mosaic Performance Solutions earnout obligations of \$98.9 million which are to be settled in shares;
- (c) The net issuance of \$4.1 million in shares, which includes \$5.4 million net of cancellations in payments pursuant to contingent consideration agreements related to a prior year's acquisition, \$1.1 million under Mosaic's Employee Share Purchase and Option plan and \$1.0 million upon exercise of employee share options, partially offset by the repurchase of \$3.4 million in shares under the Company's Normal Course Issuer Bid;
- (d) Net earnings of \$20.7 million, partially offset by a reduction of \$6.0 million in retained earnings due to a loss of \$3.3 million on the repurchase of shares at prices in excess of the average issue price and distributions on COPrS of \$2.7 million, net of income taxes; and
- (e) A change of \$9.8 million in the foreign currency translation adjustment in respect of Mosaic's net investment in self-sustaining foreign operations due to a strengthening of the U.S. dollar and British pound in relation to the Canadian dollar.

Excluding the COPrS instrument, the company to date has not paid any dividends on its common shares, and does not intend to do so in 2002.

MARCH 2002 COMMON SHARE OFFERING

In March 2002, Mosaic completed a bought deal public common share offering of 13.8 million common shares at a price of \$3.80 per share for gross proceeds of \$52.4 million. These amounts included 1.8 million common shares, which were issued as a result of an over allotment option granted to the underwriters of the offering by the Company.

The following table sets out the capitalization of the Company as at December 31, 2001: (i) on an actual basis, as reflected in the Company's consolidated financial statements as at December 31, 2001; and (ii) on a pro forma basis to reflect the issue of the Company's 13,800,000 common share offering:

Consolidated Capitalization at December 31, 2001 (in thousands of dollars)		
	Actual (audited)	Pro Forma⁽¹⁾ (unaudited)
Debt		
Bank indebtedness	\$ 5,943	\$ 5,943
Senior credit facility	162,710	161,779
Accrued acquisition liabilities ⁽²⁾	72,845	30,710
Obligations under capital leases (including current portion)	10,465	10,465
Total Debt	251,963	208,897
Minority Interest	2,685	2,685
Shareholders' Equity		
Common shares, without par value, unlimited authorization; issued 75,194,371 as at December 31, 2001; <i>Pro forma</i> 95,734,371	191,578	249,090
13,800,000 common share offering ⁽³⁾	—	50,678
Other equity instruments		
COPrS	85,350	85,350
Paradigm earn-out obligation – January 15, 2002 ⁽⁴⁾	57,512	—
Paradigm earn-out obligation – April 1, 2002 ⁽⁵⁾	41,340	41,340
Total Share Capital	375,780	426,458
Cumulative foreign exchange translation adjustment	(3,849)	(3,849)
Retained earnings	47,057	47,057
Total Shareholders' Equity	418,988	469,666
Total Capitalization	\$ 673,636	\$ 681,249

⁽¹⁾ The above table reflects on a pro forma basis the results of the issuance of the March 2002 common share offering and the payment of the obligated US\$26.5 million cash and share (C\$42.1 million) portion of the Paradigm earn-out payment and share issue subsequent to December 31, 2001

⁽²⁾ On January 15, 2002, the cash portion of the Paradigm earn-out payment of US\$26.5 million (C\$42.1 million) was settled increasing the balance owing under the senior credit facility.

⁽³⁾ After deduction of the underwriters' fee of \$2.6 million and estimated expenses of the offering of \$0.3 million net of applicable income tax benefits of approximately \$1.1 million in the aggregate.

⁽⁴⁾ Share capital at December 31, 2001 includes the Paradigm earn-out obligation that was settled in part on January 15, 2002 by the issuance of 20,540,000 common shares of the Company.

⁽⁵⁾ Share capital at December 31, 2001 includes the balance of the Paradigm earn-out obligation that will be settled in April 2002.

Net proceeds of the March 2002 common share offering were used to reduce the balance owing under the senior credit facility. The reduction in debt is expected to reduce 2002 interest expense by approximately \$1.5 million or \$0.01 per share.

OUTSTANDING SHARES

At December 31, 2001, Mosaic had approximately 75 million common shares outstanding, and 77 million shares on a diluted basis. The difference between the basic and diluted common shares relates to employee and director stock options as calculated by using the treasury stock method for diluted EPS.

In August 2001, the Toronto Stock Exchange accepted Mosaic's intention to renew its Normal Course Issuer Bid (the "Bid") through the facilities of the TSE. Under the terms of renewal, the number of common shares that can be purchased under the bid will be 3.8 million shares during the period from August 8, 2001 to August 7, 2002. As at December 31, 2001, the Company had repurchased 1.0 million shares under the terms of the Bid.

As previously set out, the Company issued 20.54 million shares in January 2002 as partial consideration for the Mosaic Performance Solutions earnout. In addition, up to a maximum of 12.48 million common shares could be issued in lieu of cash at Mosaic's option on April 1, 2002. It is currently the Company's intention to issue the entire April 1, 2002 final consideration in shares. The following table summarizes the changes in the number of common shares on a pro-forma basis for the below noted transactions:

Pro forma Changes to Basic Common Shares	Common Shares
December 31, 2001 per audited financial statements	75,194,371
January 15 th , 2002 issue for Paradigm earn-out payment	20,540,000
March 2002 common share issue	13,800,000
April 2002 issue for final Paradigm earn-out payment	12,480,000
Total pro forma basic common shares outstanding	122,014,371

At December 31, 2001, outstanding stock options had an average exercise price of \$5.96, with exercise prices ranging from \$1.90 to \$21.19. Stock options are issued to employees under the Company's Employee Share Purchase and Option Plan and to employees and directors under the Company's Incentive Compensation Plan. The exercise price of these options is set at no less than fair market value of the common shares at the time of grant. The reader is directed to note 7 to the consolidated financial statements for further details on the Company's stock based compensation plans.

FINANCIAL RISK AND UNCERTAINTIES

In the normal course of business, the financial position and results of operations of the company routinely are subject to a variety of risks. Risks reflect uncertainty regarding potential outcomes from changes in political, economic and capital market conditions. Mosaic's management regularly assesses the risks associated with business transactions and the business environment within which the Company operates and has established policies and business practices to protect against adverse effects of these and other potential exposures. As a result, the Company does not anticipate any material losses from these risks. The Company is subject to these risks and uncertainties and actively manages them as follows:

Client and credit risk:

Mosaic manages its credit risk with respect to trade accounts receivable by dealing primarily with large creditworthy customers and by collecting, whenever possible, in advance of rendering services. Management is of the view that the Company is not subject to a significant concentration of credit risk. AT&T Wireless through multiple service contracts represented over 27% of revenues in fiscal 2001 with all other clients individually accounting for less than 7% of total revenues.

Mosaic is also subject to revenue uncertainties in respect of clients, including loss of clients, cancellation or delay of committed client projects, and the undertaking of unprofitable client work. These risks are reduced through the use of client contracts and project budgeting systems.

Workforce:

The Company is subject to labour laws across a number of legal jurisdictions. Changes in labour laws can impact the cost and productivity of the workforce. Additionally, current economic conditions provide for low unemployment rates in certain markets, resulting in increased competition for labour. The Company manages these risks by monitoring labour laws and adapting its policies to comply with regulations. In addition, the Company uses innovative tools (e.g. web and university-based recruiting and stock compensation plans) to attract new employees. The Company has adequate insurance to cover against any potential Employment Practices Liability.

Electronic security risks:

Mosaic uses a number of Information Technology ("IT") tools in the course of delivering its services. The Company also has direct access to IT systems of certain of its clients in order to activate customers, thus exposing Mosaic to risks related to unauthorized access to its computer systems, mishandling or destruction of data and data privacy issues. The Company manages these risks through the use of appropriate electronic privacy and security tools. The Company also carries out regular testing of its security systems to ensure their functionality.

Interest rate risk:

The Company's debt under its Senior credit facility bears interest subject to floating rates and the Company has exposure to movements in short-term rates. As explained further in notes 5(b)(i) and 5(b)(ii) to the consolidated financial statements, the Company manages this risk in part through floating-for-fixed interest rate swap arrangements with large financial institutions. The effect of these instruments at the end of 2001 was to fix the rate on US \$25 million of debt at 8.0%, and on \$50 million of Canadian dollar denominated debt at approximately 7.34%, based on the credit spread charged on the Senior credit facility at December 31, 2001.

Foreign currency risk:

Changes in the relative values of non-Canadian currencies to the Canadian dollar affect the Company's financial position. A significant part of the Company's operations are concentrated in self-sustaining operations in the United States and the United Kingdom. The operations in the United States are naturally hedged, as the cash borrowed to pay for the cash component of those acquisitions was borrowed in US dollars with US\$69 million held in debt instruments and US\$57 million in equity instruments denominated in that currency at December 31, 2001.

The Company has entered into a series of short-term foreign currency forward contracts to manage its exposure to movements in the UK pound and the US dollar. The forward contracts are designated as hedges against the UK pound and US dollar receipts under certain long-term client contracts. At December 31, 2001, the nominal value of the UK pound forward contracts amounted to £5.7 million and the nominal value of the US dollar forward contracts amounted to US\$20.6 million. No other currencies are material to Mosaic's operations.

Commercial risks:

Business operations are subject to normal commercial risks. Mosaic has a consolidated umbrella liability insurance policy, and management believes it has adequate and appropriate insurance in respect of insurable commercial risks.

CHANGES IN ACCOUNTING PRINCIPLES

Earnings per share:

As detailed in note 1(n) and 9(a) to the consolidated financial statements, the Company has retroactively adopted the new recommendations for determining earnings per share issued by The Canadian Institute of Chartered Accountants which effectively requires the use of the 'treasury stock method' and largely harmonizes Canadian standards with those used in the United States.

Business combinations and acquisition related goodwill:

Effective January 1, 2002, the Company adopted the new accounting standards released by the Canadian Institute of Chartered Accountants as applied to business combinations and accounting for acquisition related goodwill and other intangible assets. For more details refer to note 1(o) to the consolidated financial statements.

Stock-based compensation:

Effective January 1, 2002, the Company adopted the new accounting standards as it relates to stock-based compensation arrangements. For more details refer to note 1(o) to the consolidated financial statements.

Hedging Relationships:

The Canadian Institute of Chartered Accountants has recently released Accounting Guideline No. 13, Hedging Relationships. The new guideline will be applicable to hedging relationships in effect in fiscal years beginning on or after July 1, 2002. It is not applicable to prior periods, but requires the discontinuance of hedge accounting for hedging relationships established in prior periods that do not meet the conditions for hedge accounting at the date it is first applied. The Company has not yet assessed the impact of the new accounting guideline on our financial statements.

SUPPLEMENTAL EARNINGS MEASURES

In addition to providing earnings measures in accordance with Generally Accepted Accounting Principles (GAAP), the Company presents certain supplemental earnings measures, specifically - EBITDA, Cash earnings, and Pro forma earnings. These earnings measures do not have any standardized meaning prescribed by GAAP and are therefore may not be comparable to similar measures presented by other companies.

- (a) EBITDA - defined as earnings from continuing operations before depreciation and amortization, interest, minority interest and income taxes and goodwill charges. This measure is provided to assist investors in determining the ability of the Company to generate cash from operations. EBITDA is disclosed in the statement of income.
- (b) Cash earnings - defined as earnings from continuing operations before net-of-tax goodwill charges. Cash earnings per share can be determined from the statement of income by dividing earnings from continuing operations before goodwill charges less the distributions on equity instruments by the weighted average number of shares outstanding.
- (c) Pro forma earnings per share reflects the impact of Paradigm Earnout as if it had occurred on January 1, 2001 to assist investors assess the potential dilution of this transaction. The determination of pro forma share earnings is based on the following assumptions as disclosed on page 5.

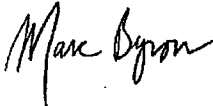
- (d) Pro forma revenue gives effect to the inclusion of Mosaic Performance Solutions revenue as if the acquisition had occurred on January 1, 2000. This information is provided to enhance comparability between periods.

FORWARD LOOKING STATEMENTS

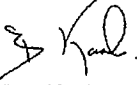
Mosaic and its representatives periodically make written and spoken forward-looking statements and projections, including those contained in the annual and quarterly reports to shareholders. Substantial risks and uncertainties exist with respect to such factors as the maintenance of client relationships, client credit risk, the performance of capital markets, changes in interest rates, changes in foreign currency exchange rates, the retention of key management and availability of employees for hire, changes in labour and other laws to which the Company is subject, the impact of terrorism on consumer and business behavior, competition, and overall economic performance, as well as various other risk factors that will be listed from time to time in Mosaic's report or other forms of public disclosure whether written or oral. Because of these risks and uncertainties, actual results could differ materially from those contained in the Company's projections or other forward-looking statements. Mosaic cautions readers when making decisions to consider the risks and uncertainties inherent in relying on forward-looking statements made by the Company and its representatives at this or any other time.

RESPONSIBILITY FOR FINANCIAL REPORTING

The information in this annual report is the responsibility of management. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and in accordance with the accounting policies set out in note 1 to the consolidated financial statements. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Management believes that reasonable care and judgment is applied in making such estimates and assumptions. Management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are authorized, recorded and reported properly. Management reviews these accounting controls on an ongoing basis and reports its findings and recommendations to the Audit Committee of the Board of Directors. The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee, consisting of three members who are outside directors. This committee reviews the consolidated financial statements with management and the independent auditors, Ernst & Young LLP, prior to submission to the Board for approval. It also reviews the recommendations of Ernst & Young LLP for improvements to internal controls as well as the actions of management to implement such recommendations.



Marc Byron
Vice Chairman & Chief Executive Officer



Ben Kaak
Executive Vice President and
Chief Financial Officer

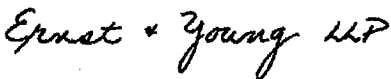
February 18, 2002

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Mosaic Group Inc. as at December 31, 2001 and 2000 and the consolidated statements of operations, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Toronto, Canada

February 18, 2002